

24 DEC 1974

MEMORANDUM FOR: Deputy Director for Intelligence

SUBJECT : Request for Permission to Use OSR Military Expenditure Estimates in OSR's Soviet GNP Project

1. We are sending you a memorandum (attachment A) that outlines two alternatives for reporting Soviet defense expenditures in the Soviet GNP project. As you know, the project is to be unclassified, and some defense values will have to be shown.

2. The memorandum compares estimates of pay and allowances of employees of the USSR Ministry of Defense that were compiled from open sources with the OSR estimates. It also contrasts estimates of Soviet industrial production and GNP that (a) use OSR estimates of production of military machinery or (b) assume that military machinery output behaved in the same way as civilian machinery production. In most periods, estimates of GNP and industrial production are much the same whether OSR classified or OSR contrived estimates are used.

3. Nonetheless, we recommend that the OSR estimates be declassified so that they can be incorporated in the GNP estimates. To publish CIA estimates of Soviet GNP with military components that rely on either dubious estimates in the public domain or equally dubious assumptions about the growth of military hardware production would not go down well with an academic audience -- those most interested in the GNP project. We have given OSR a copy of this memorandum. They do not like the idea of using military estimates that rely on unclassified sources but do not want to declassify their estimates at this time. The OSR views are set out in attachment B.

4. As you know, the question of declassifying CIA military estimates also applies to the "burden" paper. If the present draft of the paper is published on an unclassified basis, the disclosure of CIA estimates would be

substantially greater than that proposed in the GNP project. Attachment C lists the OSR estimates that appear in the burden paper.

5. We hope that we can get a determination on the use of classified military estimates in the national accounts fairly quickly because they are being put together now, and we need to settle on the military components. As for the burden paper, CIA estimates must be used. If we publish the burden paper, the question is whether or not to classify it.

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MAURICE C. ERNST
Director
Economic Research

Attachments:
As stated

Distribution:
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1 - Chief, OSR
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(24 Dec 74)